

JUDIT KAPAS

University of Debrecen, Hungary

HOW THE DEEPEST CULTURAL LAYER AFFECT ECONOMIC DEVELOPMENT: AN AMPLIFICATION EFFECT

Abstract:

Recently, the view that culture matters for economic development has gained much ground within institutional economics; scholars have provided us with empirical evidence on the positive effect of culture on economic performance (e.g., Guiso et al. 2006, Tabellini 2008, 2010, Gorodnichenko and Roland 2011, Maseland 2013). This evidence shows, in some cases, the overwhelming effect of culture vis-à-vis that of formal institutions (e.g., Williamson 2009).

However, this line of research within institutional economics is still in its infancy, meaning that we need more precise knowledge about which part of culture and how matters. One aspect of this “how” question is to overcome the somewhat “black box” view of culture (see Tabellini 2010) by unbundling culture itself.

The model I propose in this paper is the “layer” theory of culture. A useful theoretical approach to determining layers within culture is the theory of institutional stickiness (Boettke et al. 2008), which allows me to identify two layers within culture based on their degree of stickiness. The deepest, i.e., the stickiest, part of culture is individual values as understood by Schwartz (2006). The widely used concept of culture as understood in terms of trust, respect, individual self-control and obedience (proposed by Tabellini (2008) is another layer.

My argument is that the effects of particular cultural layers on development can be different because the degree of stickiness can influence the extent to which a particular cultural layer is in harmony with formal institutions. New insights on the “culture – development” issue can be gained by focusing on the interaction of a particular cultural layer and sticky formal institutions.

As the first step in this line of research, this paper deals only with individual values. The main hypothesis is that individual values exercise a very specific effect on long-run development: besides influencing development on their own, they exercise an additional effect that comes via sticky formal institutions. More precisely, the interaction of individual values with sticky formal institutions “amplifies” the effect of individual values on long-run development.

The empirical approach to test my hypothesis is a cross-country regression analysis with an interaction term, with robustness checks, including IV estimations. The empirical investigations provide support for my hypothesis. The results of the paper, I believe, nuance the results of the literature and open a possible new route in the analysis of the effect of culture on development.

Keywords:

culture, institutions, economic development

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